

**SCOTT COUNTY SCHOOL DISTRICT**

**Basic Financial Statements and Supplementary  
Information**

Year Ended June 30, 2005

**SCOTT COUNTY SCHOOL DISTRICT**

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## INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education  
Scott County School District  
Georgetown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Scott County School District (the "District") as of June 30, 2005 and for the year then ended which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Scott County School District as of June 30, 2005 and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 29, 2005 on our consideration of Scott County School District's internal control structure and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 - 10 and pages 46 through 47 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional information shown on pages 39 through 45 are presented for the purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 48 through 50 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of Scott County School District. The combining nonmajor fund financial statements and the schedule of federal expenditures have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

*Mountjoy & Bruesley, LLP*  
Lexington, Kentucky  
August 29, 2005

**SCOTT COUNTY PUBLIC SCHOOL DISTRICT – GEORGETOWN, KY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2005**

As the management of the Scott County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. This is the third year the District has prepared the annual financial report using the new financial reporting model. The reporting model is a combination of both government-wide financial statements and fund financial statements.

**FINANCIAL HIGHLIGHTS**

- The ending cash, cash equivalents and investments balance for the District's governmental funds was \$29.9 million in 2004 and \$31.8 million for 2005. Construction funds generated from school construction revenue bonds increased by \$14.9 million and debt service funds decreased by \$13.2 million. This decrease is the result of the retirement of the District's 1995 school construction revenue bonds called on June 1, 2005 at \$102. The general fund cash and cash equivalents increased by \$1.4 million as the result of an increase in deferred revenue.
- Total general fund revenue increased by 11.68% in 2005. Revenue from local sources increased by 10.8%, direct state revenue increased by 8.27% and state on-behalf revenues increased 24.4%.
- Among major funds, the general fund had \$40.2 million revenue, which primarily consisted of local property, local occupational license taxes, utility and motor vehicle taxes, federal programs (ROTC), state funding (SEEK program) and on behalf revenues (STATE). Expenditures totaled \$40.2 million for fiscal year 2004.
- On November 11, 2003, the Board approved an "Inter-local Cooperation Agreement" that called for the creation of the Georgetown/Scott County Revenue Commission to administer the collection of the Occupational and Net Profits taxes for the City of Georgetown, the Scott County Fiscal Court and the Scott County Board of Education. The Georgetown/Scott County Revenue Commission, a nonstock, nonprofit corporation was organized pursuant to the Kentucky Nonprofit Corporation Act, KRS 273.161.
- On August 10, 2004, the Board approved the purchase of 20.27 acres of land for \$557,645 for the site of the new Royal Spring Middle School.
- On January 12, 2005, the Board issued \$22.1 million in School Building Revenue bonds to finance the construction of the new Royal Spring Middle School.
- On January 25, 2005 the Board pre-paid outstanding capital leases on buses in the amount of \$525,453.
- On March 1, 2004, the Board issued \$12.1 million in School Building Revenue bonds to renovate and expand the capacity of Southern Elementary School, perform roof repair at both Central Office and the Ninth Grade School, and renovate Garth Elementary, these projects were completed in September 2005.

- On June 1, 2004, the Board issued \$4.5 million in School Building Revenue Bonds to finance the construction of an addition to Western Elementary School, this project was completed in September 2005.
- On June 14, 2005, the Board approved the acquisition of 100 acres for \$1,833,200 for the future site of a new Career & Technology Center for Scott County High School, which will ultimately become a second high school site for Scott County. Subsequently, per Note Q - Commitments, the District entered into a contract to purchase land for \$2,121,856. This acquisition was funded from general fund, \$911,038; capital outlay fund, \$200,560; and building fund, \$721,602.
- As of June 30, 2005, net assets invested in capital assets, net of related debt has a negative balance due to the fact that the above-listed bond issues were made during fiscal year 2004 and 2005 for construction projects that were incomplete as of year end.
- Bonds are issued as the District constructs and renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total outstanding principal of School Building Revenue Bonds at June 30, 2005 is \$77,280,000 and represents a net increase of \$6,755,000.

## **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 11 and 12 of this report.

## **Fund financial statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. Proprietary funds include vending and food service operations. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support.

The basic governmental fund financial statements can be found on pages 13 through 22 of this report.

## **Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 37 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$26.6 million as of June 30, 2005.

The largest portion of the District's net assets is the product of its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

### **Net Assets for the period ending June 30, 2005**

This is the third year that the District is following GASB 34 and comparing assets, liabilities and net assets. Government-wide net assets for 2005 compared to 2004 are as follows:

	<b><u>2005</u></b>	<b><u>2004</u></b>
Current Assets	\$ 30,774,606	\$ 36,478,093
Noncurrent Assets	<u>80,264,672</u>	<u>61,677,451</u>
Total Assets	<u>\$ 111,039,278</u>	<u>\$ 98,155,544</u>
Current liabilities	\$ 9,819,343	\$ 6,804,314
Noncurrent liabilities	<u>74,607,044</u>	<u>68,674,751</u>
Total Liabilities	<u>\$ 84,426,387</u>	<u>\$ 75,479,065</u>
Net Assets		
Investment in capital assets (net of debt)	\$ (262,375)	\$ (9,696,416)
Restricted	24,476,335	28,941,608
Unreserved Fund Balance	<u>2,398,931</u>	<u>3,431,287</u>
Total Net Assets	<u>\$ 26,612,891</u>	<u>\$ 22,676,479</u>



- Current assets decreased by \$5,703,487. This decrease is the net result of decreases in the Special Revenue Fund, Debt Service Fund and Trust Fund of \$13,589,855 that were primarily the result of the retirement of the Districts 1995 school construction revenue bonds called on June 1, 2005 at \$102 and an increase associated with the investment of Construction Fund revenues from the March 1, 2004, June 1, 2004, and January 12, 2005 School Building Revenue bond issues and a General Fund increase of \$1,358,284.
- Non-current Assets increased by \$18,587,221. This is primarily associated with construction and renovation of facilities, purchase of seven new school buses and increase in long-term notes receivable of \$252,328 and long-term investment of school construction revenue bond proceeds of \$2,751,239.
- Current liabilities increased by \$3,015,029. This is primarily associated with increases in accounts payable of \$1,137,588, of which \$999,382 are Construction Fund obligations and General Fund deferred revenue of \$1,681,959 relating to Occupational and Net Profits taxes.
- Non-current liabilities increased by \$5,932,293 with increases in non-current portion of long term obligations of \$6,330,000, accrued sick and vacation leave of \$127,746 and a decrease in non-current portion of capital leases of \$525,453.
- Net assets increased by \$3,936,412. The change in investment in capital assets (net of debt) is illustrated in Note E – Capital Assets, page 31. Fund balance change of \$5,883,529 includes increases in reserve for encumbrances of \$8,944,230 (primarily related to construction), \$5,769,832 in reserve for construction and a decrease in reserve for debt service of \$13,308,088 primarily as the result of the retirement of the Districts 1995 school construction revenue bonds called on June 1, 2005 at \$102.

#### **Comments on Budget Comparisons**

- The District's total Governmental fund revenues, net of inter-fund transfers, were \$52.6 million in 2005.
- The General Fund budget as compared to actual revenue and actual expenditures varied from line item to line item. A variance comparison is presented on page 46 between the fiscal budgeted amounts and the actual amounts.
- General Fund revenues were budgeted at \$38,112,127 with an actual total of \$40,273,332 for a favorable variance of \$2,161,205.
- The Scott County School District, as authorized under KRS 160.613 levies a 3% utility tax. Historically, the Scott County Board of Education is conservative in projecting budgeted revenues from this tax levy. In fiscal year 2004, utility tax receipts totaled \$2,502,646. The budget for fiscal 2005 totaled \$2,500,000 with actual collections totaling \$3,027,427.
- The Scott County School District, as authorized under KRS 160.593 levies an occupational license tax for schools as provided for in KRS 160.605 and KRS 160.607. This one-half of one percent (0.5%) occupational license tax is levied against salaries, wages, commissions, and other compensation of individuals for work done and services performed or rendered in Scott County, and on the net profits of all businesses, professions, or occupations from activities conducted in Scott County. Historically, the Scott County Board of Education is conservative in projecting budgeted revenues from this tax levy. In fiscal year 2004, occupational license tax receipts totaled \$3,958,771. The budget for fiscal year 2005 totaled \$3,980,198 with actual collections totaling \$4,355,094.

- This is the third year that "on behalf revenues" and corresponding expenditures have been shown as a component of the Scott County School District's (SCSD) annual financial report. The Kentucky Department of Education makes payment on behalf of school districts for matching contributions for employees covered under the Kentucky Teachers Retirement System (KTRS) and the Kentucky Public Employee Health and Life Insurance programs. These "on behalf" revenue and corresponding expenditures were included in the Scott County School District's budgeted amounts. The "on behalf" payments included in actual revenues and expenditures are as follows:

	<b>BUDGET 2005</b>	<b>ACTUAL 2005</b>	<b>ACTUAL 2004</b>
<b>Revenues:</b>			
State "on behalf" revenues	\$ <u>5,026,544</u>	\$ <u>5,906,549</u>	\$ <u>4,747,196</u>
<b>Total Revenues</b>	\$ <u>5,026,544</u>	\$ <u>5,906,549</u>	\$ <u>4,747,196</u>
<b>Expenses:</b>			
Instruction	\$ 3,658,426	\$ 4,102,243	\$ 3,419,725
Student Support Services	323,422	368,725	305,460
Instructional Staff	160,268	317,339	146,512
District Administration	32,864	34,802	31,039
School Administration	292,387	341,987	276,150
Business	47,441	80,310	44,860
Plant Operations	213,207	224,860	201,368
Student Transportation	284,064	343,343	268,299
Food Service Support	-	7,501	-
Facilities Acquisition and Construction	14,465	14,827	13,663
Community Support	-	70,612	40,120
<b>Total Expenses</b>	\$ <u>5,026,544</u>	\$ <u>5,906,549</u>	\$ <u>4,747,196</u>

On-Behalf revenues were projected to increase by 6.0% over actual 2004, but increased by 24.4%.

- Budgeted expenditures of \$41,670,998 included \$1,058,099 for contingencies. Actual expenditures totaled \$40,243,840.
- The SCSD General Fund budget is controlled at the project level by budget coordinators. Each project may include more than one function area. The presented actual expenditures include actual payment of expense, plus account payables (amounts owed for goods received and service provided to SCSD) on June 30, 2005. In addition to the presented expenditures, the SCSD had outstanding \$799,044 in encumbrances. Encumbrances represent orders and commitments by SCSD for goods and services from the Fiscal 2005 budget
- Budget allocations to Site Based Decision Making Councils (SBDM) for salaries, supplies and programs totaled \$17,467,168. The Scott County Board of Education approves requests from SBDM Councils to carry any unobligated allocation to the next fiscal year. This approved carry over at June 30, 2005 totaled \$265,413.
- The \$430,474 budget to actual variance in regards to Instruction is comprised primarily of the following: a \$443,817 expenditure excess in regards to on-behalf payments, \$418,001 budget excess for salary and fixed costs, and outstanding encumbrances of \$407,126.

- The SCSD maintains an expense budget as a reserve for contingency. On June 30, 2005 this contingency reserve totaled \$1,058,099.
- The effect of the presented expenditures budget to actual variance is as follows:

		<b>Variance Favorable/(Unfavorable)</b>
Expenditure variance as presented	\$	1,427,158
Less: Encumbrances		799,044
SBDM carry-over allocation		265,413
SCSD contingency reserve		1,058,099
Plus: On-behalf payments		<u>(880,005)</u>
Remaining favorable expenditure variance	\$	<u>184,607</u>

The \$ 184,607 remainder of the favorable expenditure variance represents .44% of the Fiscal Budgeted Expenditure Amounts.

The following table presents a comparison of revenue and expenditures for governmental funds only for fiscal 2005 and 2004.

<b>Revenues:</b>	<b>2005</b>	<b>2004</b>
Local revenue sources	\$ 21,141,110	\$ 18,981,850
State revenue sources	22,692,007	20,857,691
On-behalf revenue (state)	5,906,549	4,747,196
Federal revenue sources	2,897,814	2,439,432
Other revenue	<u>10,389</u>	<u>-</u>
<b>Total revenues</b>	<b>\$ <u>52,647,869</u></b>	<b>\$ <u>47,026,169</u></b>
<b>Expenditures:</b>		
Instruction	\$ 27,840,249	\$ 26,216,885
Student Support Services	2,182,440	1,979,976
Instructional Support	2,620,294	1,783,730
District Administration	824,181	775,043
School Administration	2,287,595	2,009,643
Business Support	797,102	681,863
Plant Operations and Maintenance	3,679,358	3,410,210
Student Transportation	3,272,271	2,782,179
Facilities Construction	17,004,177	7,465,600
Community Support	751,534	709,305
Debt Service	19,491,178	4,669,546
Other	<u>26,158</u>	<u>33,665</u>
<b>Total expenses</b>	<b>\$ <u>80,776,537</u></b>	<b>\$ <u>52,517,645</u></b>
<b>Expense in excess of Revenue</b>	<b>\$ <u>(28,128,668)</u></b>	<b>\$ <u>(5,491,476)</u></b>
<b>Other Financing Sources:</b>		
Proceeds from sale of bonds	\$ 22,125,000	\$ 16,600,000
Proceeds from sale of fixed assets	136,039	4,490
Operating transfers (net)	<u>(15,900)</u>	<u>(2,034)</u>
	<b>\$ <u>22,245,139</u></b>	<b>\$ <u>16,602,456</u></b>
<b>Excess deficit of revenue and other financing sources over expenditures and other financing uses:</b>	<b>\$ <u>(5,883,529)</u></b>	<b>\$ <u>11,110,980</u></b>

- Expenditures for 2005 and 2004 by fund group are summarized as follows:

	2005	2004
General Fund	\$ 40,243,840	\$ 35,684,048
Special Revenue Fund	5,018,582	4,983,289
Construction Fund	16,729,745	7,290,044
Debt Service Fund	18,784,370	4,449,438
Other Governmental Funds	<u>-</u>	<u>110,826</u>
Total	\$ <u>80,776,537</u>	\$ <u>52,517,645</u>

- Governmental Fund expenditures increased 53.8% in 2005 of which the General Fund accounted for 11.3%, Construction Fund 33.4% and Debt Service Fund 50.7% of this increase. Variance in the Special Revenue Fund was insignificant. The \$110,826 in Other Governmental Funds represents property insurance premium approved to be paid from Capital Outlay Funds (SEEK) in 2004. This premium was paid from the General Fund in 2005.
- The General Fund expenditure increase of \$4,559,792 is reflective of a \$2,323,219 increase in salary and salary related costs. Certified and classified staff were provided an annual salary increase of 2.5% increase. This increase was mandated by the Kentucky General Assembly in addition to experience and educational (step and rank) increases. Additionally in 2005, the District purchased seven buses and pre-paid outstanding capital leases on buses in the amount of \$525,451. Six buses were purchased in 2004. Property insurance at a cost of \$110,826 was paid from the capital outlay fund in 2004.

#### **Changes in presented expenditures by function:**

- Instructional Support Services increased by 8.96%, which is reflective of the previously noted salary increases, on-behalf payments, additional staffing and increased expenditures for instructional related technology.
- Student Transportation Support Services increased by 17.62%. Bus purchases of \$539,416, increases in salary and related salary cost of \$226,352 and the additional \$79,244 in diesel fuel account for the significant changes in individual accounts.
- Facility Construction increased by 27.76% and is attributed to the renovation and construction at Southern and Western Elementary Schools and the purchase of site and initial construction on the new Royal Spring Middle School.
- Debt Service increased by \$14,334,932 in 2005 of which \$13.2 million is the result of the retirement of the Districts 1995 school construction revenue bonds called on June 1, 2005 at \$102.

#### **BUDGETARY IMPLICATIONS**

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget for 2005 with \$1.9 million in contingency or 3.59% of the total budget. The Board had designated \$911,038 of this amount for facilities and on June 14, 2005 the Board authorized the use of these funds to purchase property for a second High School. Significant Board action relevant to the District's finances includes the renovation and addition to Southern Elementary, an addition to Western Elementary, and construction of an additional middle school.

The Scott County School District has experienced an average annual growth in student enrollment of 221

students or 3.7% annually since 2001. To accommodate this increase in enrollment, the District has been building new schools and renovating and expanding existing schools. These new and expanded facilities come with increased cost for utilities; maintenance of grounds and facilities, and additional personnel costs (instructional, administrative and support staffing.) New schools also require funds for the purchase of computers, library books, instructional materials and equipment that can only be paid from the General Fund.

In the past, these costs have been offset by increases in State funding (SEEK), increases in business and residential property subject to local taxation, and increases in utility, occupational, and net profits tax revenues. However, as with all Kentucky school districts, revenue from property tax is limited to a 4% annual growth on previous year existing property.

These growth related costs, along with the continuing need to increase student capacity and limited State revenue growth, will create budgetary challenges for the Scott County School District.

With the careful planning and monitoring of District finances, Scott County Public Schools' goal is to continue to provide a quality education for our students and a secure financial future for the school district.

Questions regarding this report should be directed to the Superintendent (502) 863-3663 or to Randall Cutright, Director of Business and Finance (502) 570-3030 or by mail at 2168 Frankfort Pike, Post Office Box 578, Georgetown, Kentucky 40324.

# SCOTT COUNTY SCHOOL DISTRICT

## STATEMENT OF NET ASSETS

Year ended June 30, 2005

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 14,690,022	\$ 489,043	\$ 15,179,065
Inventory	-	63,555	63,555
Accounts receivable			
Taxes - current	535,000	-	535,000
Taxes - delinquent	31,323	-	31,323
Intergovernmental - State	49,014	-	49,014
Intergovernmental - Federal	249,288	44,715	294,003
Other receivables	172,688	-	172,688
Notes receivable - short term portion	86,592	-	86,592
Investments	<u>14,363,366</u>	<u>-</u>	<u>14,363,366</u>
<b>Total current assets</b>	<u>30,177,293</u>	<u>597,313</u>	<u>30,774,606</u>
<b>Noncurrent assets</b>			
Notes receivable - long term portion	252,328	-	252,328
Investments	2,751,239	-	2,751,239
Capital assets, net	54,427,379	507,933	54,935,312
Nondepreciable capital assets	22,127,313	-	22,127,313
Bond issue costs	<u>198,480</u>	<u>-</u>	<u>198,480</u>
<b>Total noncurrent assets</b>	<u>79,756,739</u>	<u>507,933</u>	<u>80,264,672</u>
<b>Total assets</b>	<u>\$ 109,934,032</u>	<u>\$ 1,105,246</u>	<u>\$ 111,039,278</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 2,784,159	\$ 30,913	\$ 2,815,072
Accrued payroll and related expenses	67,750	-	67,750
Interest payable	622,248	-	622,248
Current portion of long term obligations	3,080,000	-	3,080,000
Current portion of accrued sick leave and accrued vacation	657,636	-	657,636
Deferred revenues	<u>2,576,638</u>	<u>-</u>	<u>2,576,638</u>
<b>Total current liabilities</b>	<u>9,788,431</u>	<u>30,913</u>	<u>9,819,344</u>
<b>Noncurrent liabilities</b>			
Noncurrent portion of long term liabilities	74,245,000	-	74,245,000
Noncurrent portion of accrued sick leave	<u>362,044</u>	<u>-</u>	<u>362,044</u>
<b>Total noncurrent liabilities</b>	<u>74,607,044</u>	<u>-</u>	<u>74,607,044</u>
<b>Total liabilities</b>	<u>\$ 84,395,475</u>	<u>\$ 30,913</u>	<u>\$ 84,426,388</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ (770,308)	\$ 507,933	\$ (262,375)
Restricted for:			
Capital projects	23,219,365	-	23,219,365
Other purposes (nonexpendable)	1,256,970	-	1,256,970
Unrestricted	<u>1,832,530</u>	<u>566,400</u>	<u>2,398,930</u>
<b>Total net assets</b>	<u>\$ 25,538,557</u>	<u>\$ 1,074,333</u>	<u>\$ 26,612,890</u>

See accompanying independent auditor's report  
and notes to financial statements.

SCOTT COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2005

	Program Revenues				Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>							
<b>Governmental Activities:</b>							
Instruction	\$ 29,409,281	\$ 6,106,008	\$ 7,484,614	\$ -	\$ (15,818,659)	\$ -	\$ (15,818,659)
Support services							
Student	2,180,898	-	-	-	(2,180,898)	-	(2,180,898)
Instruction staff	2,586,643	-	-	-	(2,586,643)	-	(2,586,643)
District administration	867,743	-	-	-	(867,743)	-	(867,743)
School administration	2,265,144	-	-	-	(2,265,144)	-	(2,265,144)
Business	796,649	-	-	-	(796,649)	-	(796,649)
Plant operation and maintenance	3,664,436	23,226	-	-	(3,641,210)	-	(3,641,210)
Student transportation	2,548,607	-	-	-	(2,548,607)	-	(2,548,607)
Central office	26,158	-	-	-	(26,158)	-	(26,158)
Facilities acquisition and construction	888	-	-	-	(888)	-	(888)
Community service activities	733,013	-	116,088	-	(616,925)	-	(616,925)
Debt service	3,826,372	-	-	-	(3,826,372)	-	(3,826,372)
Other expenditures	7,781	-	-	-	(7,781)	-	(7,781)
Total governmental activities	<u>48,913,613</u>	<u>6,129,234</u>	<u>7,600,702</u>	<u>-</u>	<u>(35,183,677)</u>	<u>-</u>	<u>(35,183,677)</u>
<b>Business-Type Activities</b>							
Food service and summer feeding	2,737,741	1,533,121	1,087,325	129,260	-	11,965	11,965
Other	70,390	22,101	12,845	-	-	(35,444)	(35,444)
Total business-type activities	<u>2,808,131</u>	<u>1,555,222</u>	<u>1,100,170</u>	<u>129,260</u>	<u>-</u>	<u>(23,479)</u>	<u>(23,479)</u>
Total primary government	<u>\$ 51,721,744</u>	<u>\$ 7,684,456</u>	<u>\$ 8,700,872</u>	<u>\$ 129,260</u>	<u>\$ (35,183,677)</u>	<u>\$ (23,479)</u>	<u>\$ (35,207,156)</u>
<b>General Revenues:</b>							
<b>Taxes:</b>							
					\$ 9,538,409	\$ -	\$ 9,538,409
					1,310,116	-	1,310,116
					3,232,158	-	3,232,158
					4,355,094	-	4,355,094
					1,265,149	-	1,265,149
					18,105,206	-	18,105,206
					1,174,510	10,256	1,184,766
					(34,504)	(2,445)	(36,949)
					(15,900)	15,900	-
					189,618	-	189,618
					<u>39,119,856</u>	<u>23,711</u>	<u>39,143,567</u>
					3,936,179	232	3,936,411
					21,602,378	1,074,101	22,676,479
					<u>\$ 25,538,557</u>	<u>\$ 1,074,333</u>	<u>\$ 26,612,890</u>

See accompanying independent auditor's report  
and notes to financial statements.

# SCOTT COUNTY SCHOOL DISTRICT

## BALANCE SHEET

### GOVERNMENTAL FUNDS

Year ended June 30, 2005

	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets and resources</b>						
Cash and cash equivalents	\$ 6,271,526	\$ 114,100	\$ 8,098,079	\$ 124,507	\$ 81,810	\$ 14,690,022
Accounts receivable	535,000	-	-	-	-	535,000
Taxes - current	31,323	-	-	-	-	31,323
Taxes - delinquent	-	49,014	-	-	-	49,014
Intergovernmental - state	4,525	4,374	-	-	-	8,899
Intergovernmental - Indirect Federal	-	240,389	-	-	-	240,389
Intergovernmental - Direct Federal	138,046	34,642	-	-	-	172,688
Other receivables	86,592	-	-	-	-	86,592
Notes receivable	-	-	17,114,605	-	-	17,114,605
Investments	-	-	-	-	-	-
<b>Total assets and resources</b>	<b>\$ 7,067,012</b>	<b>\$ 442,519</b>	<b>\$ 25,212,684</b>	<b>\$ 124,507</b>	<b>\$ 81,810</b>	<b>\$ 32,928,532</b>
<b>Liabilities and fund balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 561,451	\$ 40,221	\$ 2,182,487	\$ -	\$ -	\$ 2,784,159
Accrued payroll and related expenses	67,750	-	-	-	-	67,750
Current portion of accrued sick leave	362,044	-	-	-	-	362,044
Deferred revenue	2,174,340	402,298	-	-	-	2,576,638
Accrued vacation	295,592	-	-	-	-	295,592
<b>Total liabilities</b>	<b>3,461,177</b>	<b>442,519</b>	<b>2,182,487</b>	<b>-</b>	<b>-</b>	<b>6,086,183</b>
<b>Fund balances</b>						
<b>Reserved</b>						
Facility Improvement	-	-	5,769,832	-	-	5,769,832
Encumbrances	799,044	96,006	17,449,533	-	-	18,344,583
Other	354,848	-	-	-	-	354,848
<b>Unreserved</b>						
Undesignated, reported in:						
General fund	2,451,943	-	-	-	-	2,451,943
Special revenue funds	-	(96,006)	-	-	-	(96,006)
Construction funds	-	-	(189,168)	-	-	(189,168)
Debt service funds	-	-	-	124,507	74,738	199,245
Permanent funds	-	-	-	-	7,072	7,072
<b>Total fund balances</b>	<b>3,605,835</b>	<b>-</b>	<b>23,030,197</b>	<b>124,507</b>	<b>81,810</b>	<b>26,842,349</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,067,012</b>	<b>\$ 442,519</b>	<b>\$ 25,212,684</b>	<b>\$ 124,507</b>	<b>\$ 81,810</b>	<b>\$ 32,928,532</b>

See accompanying independent auditor's report and notes to financial statements.



## SCOTT COUNTY SCHOOL DISTRICT

### RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance per fund financial statements	\$ 26,842,349
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	76,554,692
Certain assets are not reported in the fund financial statements because they are not available to pay current period expenditures, but they are reported in the statement of net assets.	450,808
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable but they are presented in the statement of net assets.	<u>(78,309,292)</u>
Net assets of governmental activities	\$ <u>25,538,557</u>

See accompanying independent auditor's report and notes to financial statements.

# SCOTT COUNTY SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2005

Revenues	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
From local sources						
Taxes						
Property taxes	\$ 5,613,182	\$ -	\$ -	\$ -	\$ 3,925,227	\$ 9,538,409
Motor vehicle taxes	1,310,116	-	-	-	-	1,310,116
Utility taxes	3,027,427	-	-	-	-	3,027,427
Occupational license taxes	4,355,094	-	-	-	-	4,355,094
Tuition and fees	194,369	-	-	-	-	194,369
Earnings on investments	256,549	10,798	376,032	530,992	139	1,174,510
Other local revenues	1,402,946	138,239	-	-	-	1,541,185
State sources						
SEEK	18,066,787	-	-	-	-	18,066,787
Other	38,419	2,071,854	-	1,019,655	1,495,292	4,625,220
Federal - indirect	-	2,806,309	-	-	-	2,806,309
Federal - direct	91,505	-	-	-	-	91,505
Other revenues	10,389	-	-	-	-	10,389
On-behalf revenues	5,906,549	-	-	-	-	5,906,549
<b>Total revenue</b>	<b>40,273,332</b>	<b>5,027,200</b>	<b>376,032</b>	<b>1,550,647</b>	<b>5,420,658</b>	<b>52,647,869</b>
<b>Expenditures</b>						
Instruction	23,947,445	3,892,804	-	-	-	27,840,249
Support services						
Student	2,180,975	1,465	-	-	-	2,182,440
Instruction staff	2,002,523	617,771	-	-	-	2,620,294
District administration	785,125	39,056	-	-	-	824,181
School administration	2,286,435	1,160	-	-	-	2,287,595
Business	797,102	-	-	-	-	797,102
Plant operation and maintenance	3,679,358	-	-	-	-	3,679,358
Student transportation	3,244,237	28,034	-	-	-	3,272,271
Central office	26,158	-	-	-	-	26,158
Facilities acquisition and construction	274,432	-	16,729,745	-	-	17,004,177
Community service activities	313,242	438,292	-	-	-	751,534
Debt service	706,808	-	-	18,784,370	-	19,491,178
<b>Total expenditures</b>	<b>40,243,840</b>	<b>5,018,582</b>	<b>16,729,745</b>	<b>18,784,370</b>	<b>-</b>	<b>80,776,537</b>
<b>Excess (deficit) of revenues over expenditures</b>	<b>29,492</b>	<b>8,618</b>	<b>(16,353,713)</b>	<b>(17,233,723)</b>	<b>5,420,658</b>	<b>(28,128,668)</b>

See accompanying independent auditor's report and notes to financial statements.

**SCOTT COUNTY SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS - CONTINUED**

Year ended June 30, 2005

	General Fund	Special Revenue	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Other financing sources (uses)</b>						
Proceeds from sale of bonds	-	-	22,125,000	-	-	22,125,000
Proceeds from sale of fixed assets	22,650	-	113,389	-	-	136,039
Operating transfers in	102,361	78,743	3,771,201	3,977,392	-	7,929,697
Operating transfers out	(1,060,681)	(87,361)	(94,256)	-	(6,703,299)	(7,945,597)
<b>Total other financing sources (uses)</b>	<u>(935,670)</u>	<u>(8,618)</u>	<u>25,915,334</u>	<u>3,977,392</u>	<u>(6,703,299)</u>	<u>22,245,139</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	(906,178)	-	9,561,621	(13,256,331)	(1,282,641)	(5,883,529)
<b>Fund balance, June 1, 2004</b>	<u>4,512,013</u>	<u>-</u>	<u>13,468,576</u>	<u>13,380,838</u>	<u>1,364,451</u>	<u>32,725,878</u>
<b>Fund balance, June 30, 2005</b>	<u>\$ 3,605,835</u>	<u>\$ -</u>	<u>\$ 23,030,197</u>	<u>\$ 124,507</u>	<u>\$ 81,810</u>	<u>\$ 26,842,349</u>

See accompanying independent auditor's report and notes to financial statements.

## SCOTT COUNTY SCHOOL DISTRICT

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2005

Net change in total fund balances per fund financial statements	\$ (5,883,529)
-----------------------------------------------------------------	----------------

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation for the year.	15,643,183
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------

Bond accrued interest, capital lease payments and bond payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	(5,897,478)
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Bond issuance costs are recognized as expenditures of current financial resources in the fund financial statement but are capitalized and amortized in the statement of activities. This amount is in the current year amortization expense.	(7,781)
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Revenues earned during the period but not yet available are recognized as revenues in the fund financial statement but are increases in receivables in the statement of net assets.	252,328
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Gains and losses are not presented in this financial statement because they do not provide or use current financial resources, but they are presented in the statement of activities.	<u>(170,544)</u>
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Change in net assets of governmental activities	\$ <u>3,936,179</u>
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See accompanying independent auditor's report and notes to financial statements.

**SCOTT COUNTY SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

June 30, 2005

	<u>Food Service and Summer Feeding Fund</u>	<u>Other Enterprise Fund</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 474,302	\$ 14,741	\$ 489,043
Inventory	63,555	-	63,555
Accounts receivable			
Intergovernmental - direct Federal	<u>44,715</u>	<u>-</u>	<u>44,715</u>
<b>Total current assets</b>	<u>582,572</u>	<u>14,741</u>	<u>597,313</u>
<b>Noncurrent assets</b>			
Capital assets	1,396,875	-	1,396,875
Less: accumulated depreciation	<u>(888,942)</u>	<u>-</u>	<u>(888,942)</u>
<b>Total noncurrent assets</b>	<u>507,933</u>	<u>-</u>	<u>507,933</u>
<b>Total assets</b>	<u>\$ 1,090,505</u>	<u>\$ 14,741</u>	<u>\$ 1,105,246</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ <u>27,892</u>	\$ <u>3,021</u>	\$ <u>30,913</u>
<b>Total liabilities</b>	<u>27,892</u>	<u>3,021</u>	<u>30,913</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	507,933	-	507,933
Unrestricted	<u>554,680</u>	<u>11,720</u>	<u>566,400</u>
<b>Total net assets</b>	<u>\$ 1,062,613</u>	<u>\$ 11,720</u>	<u>\$ 1,074,333</u>

See accompanying independent auditor's report  
and notes to financial statements.

**SCOTT COUNTY SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**PROPRIETARY FUNDS**

Year Ended June 30, 2005

	Food Service and Summer Feeding Fund	Other Enterprise Fund	Total
<b>Operating revenues</b>			
Lunchroom sales	\$ 1,303,727	\$ -	\$ 1,303,727
Other operating revenues	<u>-</u>	<u>22,101</u>	<u>22,101</u>
<b>Total operating revenues</b>	<u>1,303,727</u>	<u>22,101</u>	<u>1,325,828</u>
<b>Operating expenses</b>			
Salaries and wages	1,234,678	62,257	1,296,935
Materials and supplies	1,413,669	7,128	1,420,797
Depreciation	80,798	-	80,798
Other operating expenses	<u>8,596</u>	<u>1,005</u>	<u>9,601</u>
<b>Total operating expenses</b>	<u>2,737,741</u>	<u>70,390</u>	<u>2,808,131</u>
<b>Operating loss</b>	(1,434,014)	(48,289)	(1,482,303)
<b>Non-operating revenues (expenses)</b>			
Federal grants	1,053,703	-	1,053,703
Donated commodities	129,260	-	129,260
On-behalf revenues	229,394	-	229,394
Contributions	1,000	-	1,000
State grants	32,622	12,845	45,467
Interest income	10,256	-	10,256
Loss on disposal of fixed assets	(2,445)	-	(2,445)
Transfers in (out)	<u>(15,000)</u>	<u>30,900</u>	<u>15,900</u>
<b>Total non-operating revenues</b>	<u>1,438,790</u>	<u>43,745</u>	<u>1,482,535</u>
<b>Net income (loss)</b>	4,776	(4,544)	232
<b>Net assets, beginning of year</b>	<u>1,057,837</u>	<u>16,264</u>	<u>1,074,101</u>
<b>Net assets, end of year</b>	<u>\$ 1,062,613</u>	<u>\$ 11,720</u>	<u>\$ 1,074,333</u>

See accompanying independent auditor's report  
and notes to financial statements.

**SCOTT COUNTY SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

Year Ended June 30, 2005

**Cash Flows From Operating Activities**

Cash received from:

Lunchroom sales	\$ 1,406,327
Governmental grants	1,099,172
On-behalf revenue	229,394
Other activities	23,101

Cash paid for:

Employees	(1,296,935)
Supplies	(1,270,983)
Other activities	<u>(9,601)</u>

Net cash provided by operating activities 180,475

**Cash Flows from Non-Capital Financing Activities**

Transfers 15,900

**Cash Flows From Capital and Related Financing Activities**

Purchases of capital assets (109,183)

**Cash Flows From Investing Activities**

Receipt of interest income 10,256

Net increase in cash and cash equivalents 97,448

**Balance, beginning of year** 391,595

**Balance, end of year** \$ 489,043

Reconciliation of operating income to net cash provided by operating activities:

Operating income \$ 232

Adjustments to reconcile operating income to net cash provided by operating activities:

Depreciation	80,798
Transfers	(15,900)
Loss on disposal of assets	2,445
Interest	(10,256)
Changes in assets and liabilities	
Receivables	102,601
Inventory	(6,251)
Accounts payable	<u>26,806</u>

**Net cash provided by operating activities** \$ 180,475

**Schedule of non-cash transactions:**

Donated commodities received from federal government \$ 129,260

See accompanying independent auditor's report  
and notes to financial statements.

**SCOTT COUNTY SCHOOL DISTRICT****STATEMENT OF FIDUCIARY NET ASSETS**

Year ended June 30, 2005

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 27,856	\$ 757,746
Accounts receivable	<u>-</u>	<u>6,149</u>
<b>Total assets</b>	<b>\$ <u>27,856</u></b>	<b>\$ <u>763,895</u></b>
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 37,273
Due to student groups	<u>-</u>	<u>726,622</u>
<b>Total liabilities</b>	<b>\$ <u>-</u></b>	<b>\$ <u>763,895</u></b>
<b>Net assets held in trust</b>	<b>\$ <u>27,856</u></b>	<b>\$ <u>-</u></b>

See accompanying independent auditor's report  
and notes to financial statements.



**SCOTT COUNTY SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

Year ended June 30, 2005

	<u>Private Purpose Trust Funds</u>
<b>Additions</b>	
Interest and investment revenue	\$ 457
Miscellaneous revenue	<u>10,529</u>
<b>Total additions</b>	<u>10,986</u>
<b>Deductions</b>	
Benefits Paid	<u>12,040</u>
<b>Change in net assets</b>	(1,054)
<b>Net assets - beginning of year</b>	<u>28,910</u>
<b>Net assets - end of year</b>	<u>\$ 27,856</u>

See accompanying independent auditor's report  
and notes to financial statements.

# SCOTT COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2005

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The Scott County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Scott County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Scott County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or are dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Scott County Board of Education Finance Corporation - On November 8, 1988 the Board of Education resolved to authorize the establishment of the Scott County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency of the District for financing the costs of school building facilities. The members of the Scott County Board of Education also comprise the Corporation's Board of Directors.

#### Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

## SCOTT COUNTY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total net assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

1. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 48 through 50. This is a major fund of the District.
- (C) The Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by a Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. This is a nonmajor fund of the District.
  - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a nonmajor fund of the District.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

# SCOTT COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### II Proprietary Fund Types (Enterprise Fund)

- (A) The Food Service and Summer Feeding Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

#### III Fiduciary Fund Type (Agency Funds)

- (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

#### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

## SCOTT COUNTY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

**Expenses/Expenditures** - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

#### Property Taxes

**Property Tax Revenues** - Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2005 were \$0.403 per \$100 valuation for real property, \$0.418 per \$100 valuation for business personal property and \$0.548 per \$100 valuation for motor vehicles.

The District levies a 3.0% utility tax on all businesses and households within the District. The District also levies an occupational license tax of 0.5%

#### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of technology purchases for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

## SCOTT COUNTY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
General equipment	10-15 years

#### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

#### Accumulated Unpaid Sick Leave and Vacation

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Upon retirement or separation from the school district, an employee is also entitled to a payout of their accrued vacation. Vacation is accrued at varying rates depending upon length of service. The maximum vacation accrual is 60 days.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

#### Budgetary Process

**Budgetary Basis of Accounting:** The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

## SCOTT COUNTY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

##### Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

##### Inventories

On the government-wide financial statement, inventories are stated at cost and are expensed when used. On the fund financial statements, inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

##### Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

##### Investments

Investments are recorded at their quoted market prices, with all realized gains and losses and changes in fair value recorded in the Statement of Activities. In the event an investment is purchased at a premium, the premium will be amortized monthly over the life of the investment.

##### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, capital leases, accumulated sick leave, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

##### Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

## **SCOTT COUNTY SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year Ended June 30, 2005

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

##### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

##### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

##### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

#### **NOTE B - ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.



# SCOTT COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

### NOTE C - CASH AND CASH EQUIVALENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits are covered by Federal Depository Insurance up to \$100,000 per financial institution, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2005 consisted of the following:

	Bank Balance	Book Balance
Whitaker Bank - checking	\$ 7,392,007	\$ 6,912,684
Whitaker Bank - CDs	9,004,787	9,004,787
Farmers Bank - checking	16,937	16,887
J.P. Morgan - checking	30,284	30,284
Petty Cash	25	25
	<u>\$ 16,444,040</u>	<u>\$ 15,964,667</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 14,690,022
Proprietary funds	489,043
Fiduciary funds	<u>785,602</u>
	<u>\$ 15,964,667</u>

### NOTE D - INVESTMENTS

As of June 30, 2005, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity
U.S. Governmental agencies	\$ 2,908,645	2006
U.S. Treasury notes	<u>14,205,960</u>	2006
Total	<u>\$ 17,114,605</u>	

**Credit risk:** Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. More specifically, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is allowed by state statute to invest in U.S. government agencies and U.S. treasuries which are obligations of the United States government pledged by its full faith and credit. All investments held by the District are insured or collateralized with securities held by the District or by its agent in the District's name.

**Interest rate risk:** Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

# SCOTT COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

### NOTE E- CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
<b>Governmental Activities</b>				
<b>Cost</b>				
Land	\$ 2,784,323	\$ 571,645	\$ 5,795	\$ 3,350,173
Land improvements	1,634,061	89,385	-	1,723,446
Buildings and improvements	67,976,764	484,026	217,614	68,243,176
Technology equipment	7,592,272	532,236	1,519,646	6,604,862
Infrastructure	39,053	-	-	39,053
General equipment	1,077,890	146,357	21,192	1,203,055
Vehicles	3,895,858	647,707	110,243	4,433,322
Construction in progress	3,237,139	16,078,467	538,466	18,777,140
Totals at historical cost	<u>\$ 88,237,360</u>	<u>\$ 18,549,823</u>	<u>\$ 2,412,956</u>	<u>\$ 104,374,227</u>
<b>Accumulated Depreciation</b>				
	Balance July 1, 2004	Depreciation	Disposals	Balance June 30, 2005
Land improvements	\$ 715,251	\$ 82,025	\$ -	\$ 797,276
Buildings and improvements	16,966,581	1,545,089	65,591	18,446,079
Technology equipment	6,448,004	388,520	1,514,934	5,321,590
Infrastructure	8,787	1,953	-	10,740
General equipment	523,395	82,638	13,179	592,854
Vehicles	2,493,290	267,949	110,243	2,650,996
Total accumulated depreciation	<u>\$ 27,155,308</u>	<u>\$ 2,368,174</u>	<u>\$ 1,703,947</u>	<u>\$ 27,819,535</u>
Governmental Activities Capital Assets - Net	<u>\$ 61,082,052</u>	<u>\$ 16,181,649</u>	<u>\$ 709,009</u>	<u>\$ 76,554,692</u>
Depreciable capital assets	55,060,590			54,427,379
Non-depreciable capital assets	6,021,462			22,127,313
Total governmental activities capital assets, net	<u>\$ 61,082,052</u>			<u>\$ 76,554,692</u>
<b>Business-Type Activities</b>				
<b>Cost</b>				
Food service equipment	\$ 1,260,010	\$ 52,861	\$ 27,532	\$ 1,285,339
Technology equipment	61,795	56,323	6,582	111,536
Totals at historical cost	<u>\$ 1,321,805</u>	<u>\$ 109,184</u>	<u>\$ 34,114</u>	<u>\$ 1,396,875</u>
<b>Accumulated Depreciation</b>				
	Balance July 1, 2004	Depreciation	Disposals	Balance June 30, 2005
Food service equipment	\$ 781,339	\$ 76,805	\$ 25,086	\$ 833,058
Technology equipment	58,473	3,993	6,582	55,884
Total accumulated depreciation	<u>\$ 839,812</u>	<u>\$ 80,798</u>	<u>\$ 31,668</u>	<u>\$ 888,942</u>
Capital Assets, net	<u>\$ 481,993</u>			<u>\$ 507,933</u>

# SCOTT COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

Depreciation expense for the year ended June 30, 2005 for governmental activities by function is summarized below:

Instructional	\$ 1,900,695
Instruction student support	1,264
Instruction staff support	69,374
District administration	45,477
School administration	45,105
Business support services	27,746
Plant operations and maintenance	30,142
Student transportation	247,692
Community services	<u>679</u>
Total	\$ <u>2,368,174</u>

### NOTE F - BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each bond issue, the issue date, and interest rates are summarized below:

Issue Date	Proceeds	Rates
1996	\$ 1,415,000	4.300% - 5.000%
1997 (Ref)	4,345,000	3.900% - 4.500%
1998	2,875,000	4.000% - 4.900%
1998 (Ref)	1,145,000	4.050% - 4.250%
1999	6,900,000	3.600% - 4.500%
2000	1,100,000	4.250% - 4.600%
2001 (Ref)	18,965,000	3.125% - 4.750%
2002	12,000,000	3.000% - 5.000%
2004	12,100,000	2.000% - 4.300%
2004B	4,500,000	2.500% - 5.000%
2005	22,125,000	3.000% - 4.375%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Scott County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1987 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. As of June 30, 2005 the total bond principal and interest due was \$77,280,000 and \$38,310,491, respectively. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

# SCOTT COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

	Scott County School District		Kentucky School Facility Construction Commission		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest
2005-2006	2,362,624	2,903,925	702,376	315,583	3,065,000	3,219,508
2006-2007	2,438,286	2,824,553	731,714	289,198	3,170,000	3,113,751
2007-2008	2,517,129	2,740,252	757,871	261,082	3,275,000	3,001,334
2008-2009	2,608,352	2,647,910	631,648	234,828	3,240,000	2,882,738
2009-2010	2,691,941	2,559,608	518,059	213,948	3,210,000	2,773,556
2010-2011	2,786,288	2,461,889	508,712	195,611	3,295,000	2,657,500
2011-2012	2,886,925	2,358,491	528,075	176,068	3,415,000	2,534,559
2012-2013	2,999,547	2,244,337	370,453	155,272	3,370,000	2,399,609
2013-2014	3,119,712	2,122,275	385,288	140,721	3,505,000	2,262,996
2014-2015	3,248,417	1,992,726	396,583	125,181	3,645,000	2,117,907
2015-2016	3,386,491	1,854,610	358,509	109,122	3,745,000	1,963,732
2016-2017	3,536,020	1,706,647	373,980	93,652	3,910,000	1,800,299
2017-2018	3,689,879	1,551,548	390,121	77,511	4,080,000	1,629,059
2018-2019	3,851,423	1,389,500	348,577	60,669	4,200,000	1,450,169
2019-2020	4,022,475	1,216,429	202,525	45,957	4,225,000	1,262,386
2020-2021	4,204,375	1,034,077	210,625	37,856	4,415,000	1,071,933
2021-2022	4,400,688	835,659	219,312	29,168	4,620,000	864,827
2022-2023	4,606,475	626,580	228,525	19,956	4,835,000	646,536
2023-2024	4,806,765	428,442	238,235	10,244	5,045,000	438,686
2024-2025	5,015,000	219,406	-	-	5,015,000	219,406
	<u>\$69,178,812</u>	<u>\$35,718,864</u>	<u>\$ 8,101,188</u>	<u>\$ 2,591,627</u>	<u>\$77,280,000</u>	<u>\$38,310,491</u>

During the year ended June 30, 2005 the District made one additional borrowing and paid principal payments of \$15,370,000.

### NOTE G - NOTES PAYABLE

Note payable to KISTA, due in semi-annual payments through December 1, 2007. Interest rate is 1.5%.	\$	15,000
Note payable to KISTA, due in semi-annual payments through December 1, 2007. Interest rate is 2.0%.		<u>30,000</u>
		45,000
Less current portion		<u>15,000</u>
	\$	<u>30,000</u>

Payments on these loans are as follows:

Year Ending June 30,	Amount
2006	\$ 15,000
2007	15,000
2008	<u>15,000</u>
	<u>\$ 45,000</u>

# SCOTT COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

### NOTE H - OPERATING LEASE

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2005:

Year Ending <u>June 30,</u>	
2006	\$ 53,891
2007	46,332
2008	26,072
2009	<u>2,680</u>
Total	\$ <u>128,975</u>

Rent expense for the year ended June 30, 2005 was \$58,413.

### NOTE I - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

### NOTE J - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

### NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

### NOTE L - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The

## SCOTT COUNTY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### NOTE M - NOTES RECEIVABLE

Notes Receivable at June 30, 2005 consists of accounts receivable converted to notes receivable for collection purposes as listed below:

Note receivable: Louisville Forge & Gear Works; Due December 2008; monthly payments of \$7,296; simple interest at prime rate.	\$ 279,424
Note receivable: USDA; Due January 2014; monthly payments of 5,950; no interest.	<u>59,496</u>
	338,920
Less current portion	<u>86,592</u>
	<u>\$ 252,328</u>

#### NOTE N - RETIREMENT PLAN

Certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program at 12.305%.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 8.48% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$31,175,664. The payroll for employees covered under KTRS was \$23,482,539 and for CERS was \$7,290,922.

The contribution requirement for CERS for the year ended June 30, 2005 was \$982,784 which consisted of \$618,248 from the Board and \$364,536 from the employees. The Board paid \$253,872 from federal grant monies to KTRS in matching contributions for federally funded employees.

# SCOTT COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2005

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	<u>KTRS</u> <u>June 30, 2004</u>	<u>CERS</u> <u>June 30, 2004</u>
Assets available for plan benefits, at fair value	\$ 14,255,131,000	\$ 5,187,851,530
Pension benefit obligation	<u>(17,617,626,000)</u>	<u>(4,936,459,488)</u>
	<u>\$ (3,362,495,000)</u>	<u>\$ 251,392,042</u>

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2004 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

### NOTE O - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Debt Service	\$ (13,256,331)
Other Governmental	(1,282,641)
General Fund	(906,178)
Other Enterprise Fund	(4,544)

### NOTE P - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss contingency.

**SCOTT COUNTY SCHOOL DISTRICT****NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year Ended June 30, 2005

**NOTE Q - COMMITMENTS**

Subsequent to the year ended June 30, 2005 the District entered into a contract to purchase land for \$2,121,856 for the proposed technology centre for which construction is anticipated to begin within a five to seven year period. In addition, the District has proposed the renovations of the Ninth Grade School, Scott County Middle School and Georgetown Middle School for school year 2006. However, as the District has not entered into any contracts to date regarding these projects, cost is not yet reasonably estimatable.

**NOTE R - ON-BEHALF PAYMENTS**

For the year ended June 30, 2005 total payments of \$6,135,943 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities. These revenues and expenditures are not budgeted by the District.

**NOTE S - TRANSFER OF FUNDS**

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Enterprise	Summer Enrichment	\$ 3,600
Operating	General	Enterprise	Daycare Program	27,300
Operating	General	Construction	Fieldhouse Construction	40,000
Operating	General	Construction	Property Acquisition	911,038
Operating	General	Special Revenue	KETS Match	78,743
Operating	Special Revenue	General	Indirect Cost	87,361
Operating	Capital Outlay	Construction	Property Acquisition and Construction	523,822
Operating	Building	Debt Service	Debt Service	3,883,136
Operating	Building	Construction	Property Acquisition and construction	2,296,341
Operating	Construction	Debt Service	Prepaid bond interest	94,256
Operating	Food Service	General Fund	Indirect Cost	15,000